

## Message Text

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E.O. 11652: GDS

TAGS: EGEN, ECON, XC, XE, XP

SUBJECT: OFFICE OF ECONOMIC POLICY WEEKLY STATUS REPORT

MAY 24, 1977

### 1. CIEC PREPARATIONS (CONFIDENTIAL)

CONGRESSIONAL CONSULTATIONS, SEEKING SUPPORT FOR OUR POSITIONS IN CIEC, ESPECIALLY ON THE SUBSTANTIAL INCREASES IN U.S. AID OVER THE NEXT FIVE YEARS, IS PROGRESSING AS EXPECTED. KEY CONGRESSIONAL MEMBERS OF THE AUTHORIZATION COMMITTEES HAVE REACTED FAVORABLY, THEIR COUNTERPARTS ON THE APPROPRIATION COMMITTEES MUCH LESS SO. THE SECRETARY IS HAVING BREAKFAST WITH CONGRESSIONAL LEADERS ON MAY 25 WHERE THIS WILL BE A MAJOR TOPIC.

### 2. HOUSE AUTHORIZES FY-78 FOREIGN ASSISTANCE FUNDING

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(UNCLASSIFIED)

ON MAY 12 THE HOUSE PASSED BY 252 TO 156 THE AUTHORIZATION BILL FOR DEVELOPMENT ASSISTANCE FOR FY-78. THE MARGIN OF APPROVAL, 94 VOTES, WAS ENCOURAGING AND THE FUNDING LEVEL OF 1.681 BILLION DOLLARS WAS 134 MILLION DOLLARS ABOVE THE ADMINISTRATION REQUEST. OF PARTICULAR INTEREST TO EA WERE

AMENDMENTS RESTRICTING AID TO VIETNAM ALONG THE LINES OF

THE PROHIBITION AGAINST DIRECT ASSISTANCE IN LAST YEAR'S LEGISLATION AND ALLOWING GREATER FLEXIBILITY IN P.L.-480 ALLOCATIONS BETWEEN THE POOREST AND MORE WELL OFF LDCS. THE LATTER CHANGE COULD BE PARTICULARLY IMPORTANT TO OUR FOOD AID PROGRAMS IN KOREA AND THE PHILIPPINES WHERE THE PREVIOUS RIGID GUIDELINES HAD INHIBITED OUR ABILITY TO PROVIDE A MORE VARIED RANGE OF COMMODITIES. ACCOMPANYING APPROPRIATIONS LEGISLATION IS NOW UNDERWAY IN THE HOUSE WITH FULL COMMITTEE REVIEW SCHEDULED FOR JUNE 6.

3. HOUSE SUBCOMMITTEE REDUCTION OF ADB ORDINARY CAPITAL (OC); VIETNAM RESTRICTIONS NOT INTRODUCED (UNCLASSIFIED)

THE HOUSE APPROPRIATIONS SUBCOMMITTEE (LONG) IN ITS MARKUP OF THE FY-78 FOREIGN ASSISTANCE LEGISLATION REDUCED THE ADMINISTRATION REQUEST FOR ORDINARY CAPITAL (OC) SUBSCRIPTION, FOR THE ADB AS FOLLOWS:  
(IN MILLIONS OF DOLLARS)

	PAID-IN	CALLABLE	TOTAL
REQUESTED	20.4	183.6	204.0
RECEIVED	16.0	124.0	140.0

IT HAS NOT YET BEEN DECIDED WHETHER WE WILL MAKE A MAJOR PUSH TO HAVE THE FULL REQUEST RESTORED ALTHOUGH IT WILL BE NECESSARY TO HAVE SOME TECHNICAL CORRECTION MADE IN THE FIGURES TO EVEN THE PROPORTIONATE CUTS IN PAID-IN AND CONFIDENTIAL

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CALLABLE CAPITAL. TREASURY FEELS THE LOWER FIGURES ARE ACCEPTABLE GIVEN THE FOLLOWING:

-- WE ARE AT THE BEGINNING OF THE OC REPLENISHMENT CYCLE AND WE ARE NOT (YET) LAGGING BEHIND ANYONE IN CONTRIBUTIONS.

-- THE TRIGGER AMOUNT FOR THE REPLENISHMENT CAN STILL EASILY BE REACHED WITH THE 140 FIGURE.

-- THE LOWER AMOUNT REDUCES OUR VOTING SHARE ONLY SLIGHTLY FROM 8.5 TO 7.8 .

THE SUBCOMMITTEE GAVE US THE FULL AMOUNT (60 MILLION DOLLARS THAT WE REQUESTED FOR THE ADF.

CONGRESSMAN YOUNG DID NOT INTRODUCE HIS AMENDMENT RESTRICTING U.S. CONTRIBUTIONS TO THE IFIS FROM BEING USED IN VIETNAM. HE APPARENTLY DID NOT HAVE THE SUPPORTING VOTES IN THE SUBCOMMITTEE OR IN THE COMMITTEE. THERE IS A GOOD

CHANCE HE WILL INTRODUCE HIS AMENDMENT WHEN THE BILL REACHES THE FLOOR OF THE HOUSE NEXT MONTH.

#### 4. ASEAN DEVELOPMENTS (LIMITED OFFICIAL USE)

##### A. U.S.-ASEAN ECONOMIC CONSULTATIONS

PROGRESS ON OUR PROPOSED ASEAN CONSULTATIONS CONTINUES SLOW AND IT NOW SEEMS CERTAIN THAT ANY CONSULTATIONS WILL HAVE TO BE DELAYED UNTIL AFTER JUNE. PHILIPPINE SECRETARY OF INDUSTRY PATERNO WILL TRY TO SEE WIDJOJO IN JAKARTA AT THE END OF THIS MONTH TO DISCUSS THE NATURE AND LEVEL OF ASEAN REPRESENTATION FOR A MEETING WITH THE U.S. PATERNO HAS ALSO TOLD OUR EMBASSY IN MANILA THAT HE FEELS THE FIRST MEETING SHOULD BE ON THE DIRECTOR GENERAL OR AMBASSADORIAL LEVEL AND NOT AT THE COOPER LEVEL AS WE HAD SUGGESTED. HE DID NOT RULE OUT UTILIZING A HIGHER LEVEL  
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AT LATER SESSIONS. THE QUESTION OF A FOREIGN OR ECONOMIC MINISTRY LEAD (WE FAVOR THE LATTER) IS STILL NOT SETTLED AND PATERNO FELT WIDJOJO'S SUPPORT WOULD BE ESSENTIAL IF THE ECONOMIC MINISTRIES OPTIONS WERE TO PREVAIL.

##### B. BUMPS ON THE ROAD TOWARD ASEAN INDUSTRIAL COOPERATION

SEVERAL REPORTS FROM THE REGION INDICATE THAT ASEAN COOPERATION ON VARIOUS INDUSTRIAL PROJECTS IS FAR FROM COMPLETE. IT NOW APPEARS LIKELY THAT THE THAI WILL BE GOING AHEAD WITH THEIR OWN DIESEL ENGINE PLANT IN ADDITION TO THE ASEAN DIESEL PROJECT PLANNED FOR SINGAPORE. ALSO, THERE SEEMS TO BE NO COORDINATION BETWEEN INDONESIA AND SINGAPORE BOTH OF WHICH ARE PLANNING MAJOR PETROCHEMICAL INDUSTRIES.

##### C. PROGRESS IN TRADE COOPERATION

ASEAN STATES SEEM DETERMINED TO FORGE AHEAD WITH PLANS FOR PREFERENTIAL TRADING ARRANGEMENTS. TO DATE THE FIVE REGIONAL COUNTRIES HAVE EXCHANGED OFFER/REQUEST LIST CONTAINING 235 PRODUCTS OR COMMODITIES. PARTICULARLY ENCOURAGING IS THE SOMEWHAT SURPRISING INDONESIAN OFFER OF TEN COMMODITIES FOR TARIFF PREFERENCES. GIVEN INDONESIA'S KEY ROLE IN ANY ASEAN ENDEAVOR THIS NEW FLEXIBILITY FROM JAKARTA IS MOST WELCOME. RATIFICATION

FOR THE PREFERENTIAL TRADING ARRANGEMENTS ARE SLATED TO BE EXCHANGED DURING THE FORTHCOMING SUMMIT MEETING IN KUALA LUMPUR IN AUGUST.

D. LEE KUAN YEW PROPOSES AN EAST ASIA QUOTE LOME  
CONVENTION UNQUOTE

IN A MAY 6 INTERVIEW WITH AN AUSTRALIAN JOURNALIST,

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SINGAPORE PM LEE KUAN YEW SPOKE OF THE NEED FOR SOME TYPE OF ASEAN-JAPANESE RELATIONSHIP ALONG THE LINES OF THE LDC-EC CONNECTION CODIFIED IN THE LOME CONVENTION. LEE DID, HOWEVER, CAUTION AGAINST PREFERENTIAL TRADING ARRANGEMENTS DETERMENTAL TO THE INTERESTS OF THE U.S. OR EC. LEE COULD ALSO ENVISAGE SOME TYPE OF AUSTRALIAN-NEW ZEALAND ASSOCIATION IN SUCH A RELATIONSHIP ALTHOUGH IN A SOMEWHAT DIFFERENT FORM THAN THAT OF JAPAN. SPECIFICALLY, LEE SEEMS TO HAVE IN MIND A SYSTEM WHEREBY ELEMENTS OF INDUSTRIAL PRODUCTION AND/OR MANUFACTURING ARE MOVED OUT OF JAPAN INTO THE ASEAN STATES AND THAT CANBERRA TAKE A MORE LIBERAL ATTITUDE TOWARD THE IMPORTATION OF THE PRODUCTS OF THESE AND OTHER INDUSTRIES INTO AUSTRALIAN MARKET.

5. IDA COUNTRY ALLOCATION (LIMITED OFFICIAL USE)

THE USG HAS GIVEN THE WORLD BANK A PAPER ENTITLED QUOTE U.S. THOUGHTS ON IDA COUNTRY ALLOCATION UNQUOTE WHICH RECOMMENDS THAT IDA ASSISTANCE, WHILE RESTING ON TRADITIONAL LENDING CRITERIA, SHOULD TAKE ACCOUNT OF SEVERAL NEW CONSIDERATIONS, E.G. IMPROVED INCOME DISTRIBUTION, FOOD AND ENERGY DEFICITS, DEBT SERVICE, AND THE BLEND BETWEEN IBRD AND IDA LOANS. FURTHERMORE, PROJECT AVAILABILITY AND PERFORMANCE SHOULD ALSO BE TAKEN INTO ACCOUNT. THE PRACTICAL MEANING OF THE PAPER FOR EA IS THAT THAILAND AND PHILIPPINES MAY HAVE A BETTER CHANCE TO GET IDA LOANS. BUT EA LEARNED THAT BOEKER AND BERGSTEN AGREED THAT THEY WILL NOT MAKE INDONESIA ELIGIBLE FOR IDA LOANS (SHADES OF OPEC). THE ISSUE IS TO BE DISCUSSED AT AN IBRD BOARD MEETING IN THE NEAR FUTURE.

6. MORE ON GSP OPEC EXCLUSION (LIMITED OFFICIAL USE)

THERE HAVE BEEN MORE INTRA- AND INTER-DEPARTMENTAL CONSULTATIONS ON THE POSITION THE ADMINISTRATION SHOULD  
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TAKE ON THE VARIOUS PROPOSED AMENDMENTS WHICH WOULD

PERMIT THE EXTENSION OF GSP TO SOME OPEC COUNTRIES. AS IT TURNS OUT, ALL THE PROPOSED AMENDMENTS WOULD REQUIRE PRESIDENTIAL JUSTIFICATION ON THE BASIS OF THE NATIONAL ECONOMIC INTEREST. STATE HAS DECIDED TO SUPPORT IN A LOW KEY, THE EXPANSION OF THE VANIK WESTERN HEMISPHERE AMENDMENT TO INCLUDE ALL OPEC COUNTRIES. SHOULD THIS PASS, WHICH IS UNLIKELY, THE UNPLEASANT TASK OF DECIDING AND JUSTIFYING TO WHICH OPEC COUNTRIES GSP SHOULD BE APPLIED WOULD BE LEFT TO THE ADMINISTRATION.

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